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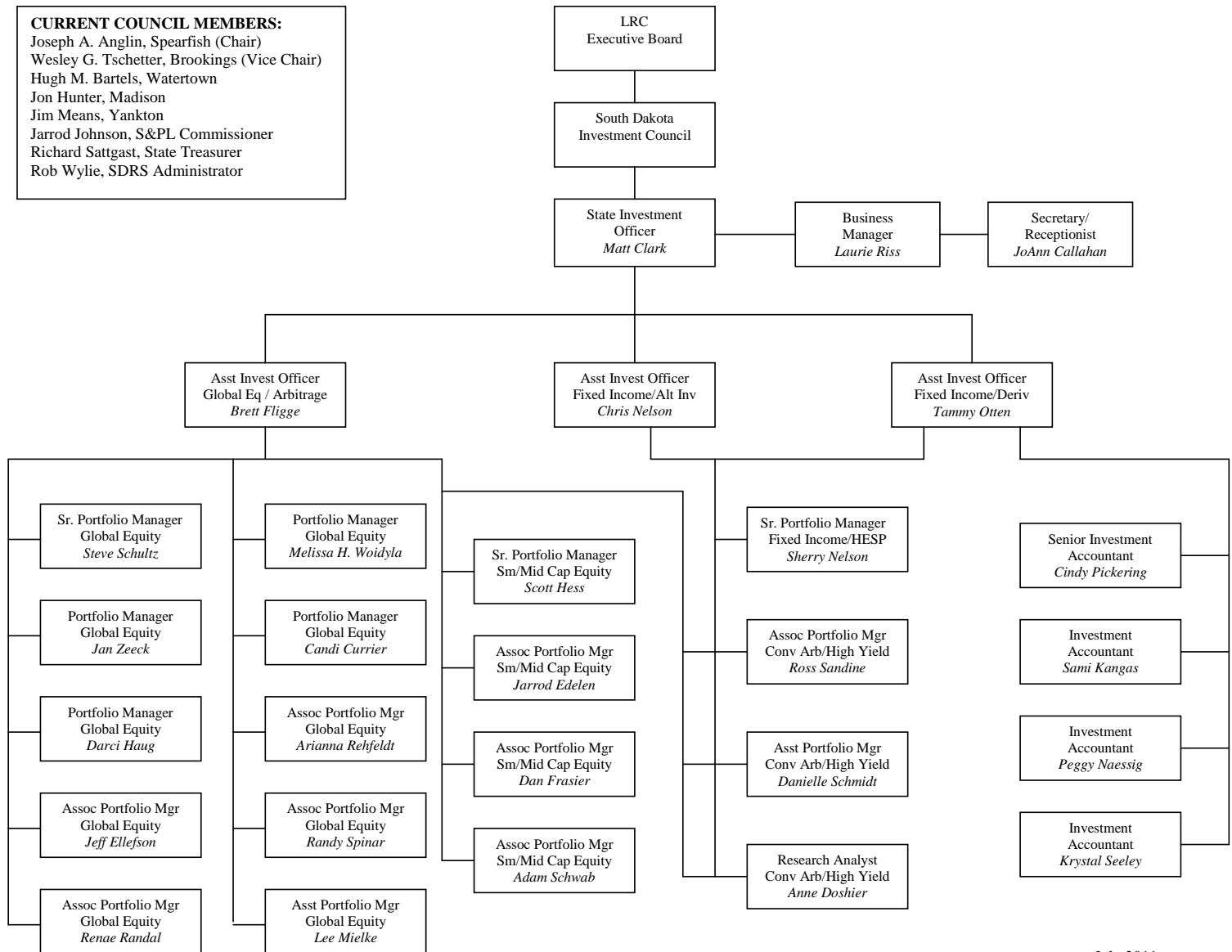
Executive Board

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South Dakota Investment Council

August 22, 2011

**CURRENT COUNCIL MEMBERS:**  
 Joseph A. Anglin, Spearfish (Chair)  
 Wesley G. Tschetter, Brookings (Vice Chair)  
 Hugh M. Bartels, Watertown  
 Jon Hunter, Madison  
 Jim Means, Yankton  
 Jarrod Johnson, S&PL Commissioner  
 Richard Sattgast, State Treasurer  
 Rob Wylie, SDRS Administrator

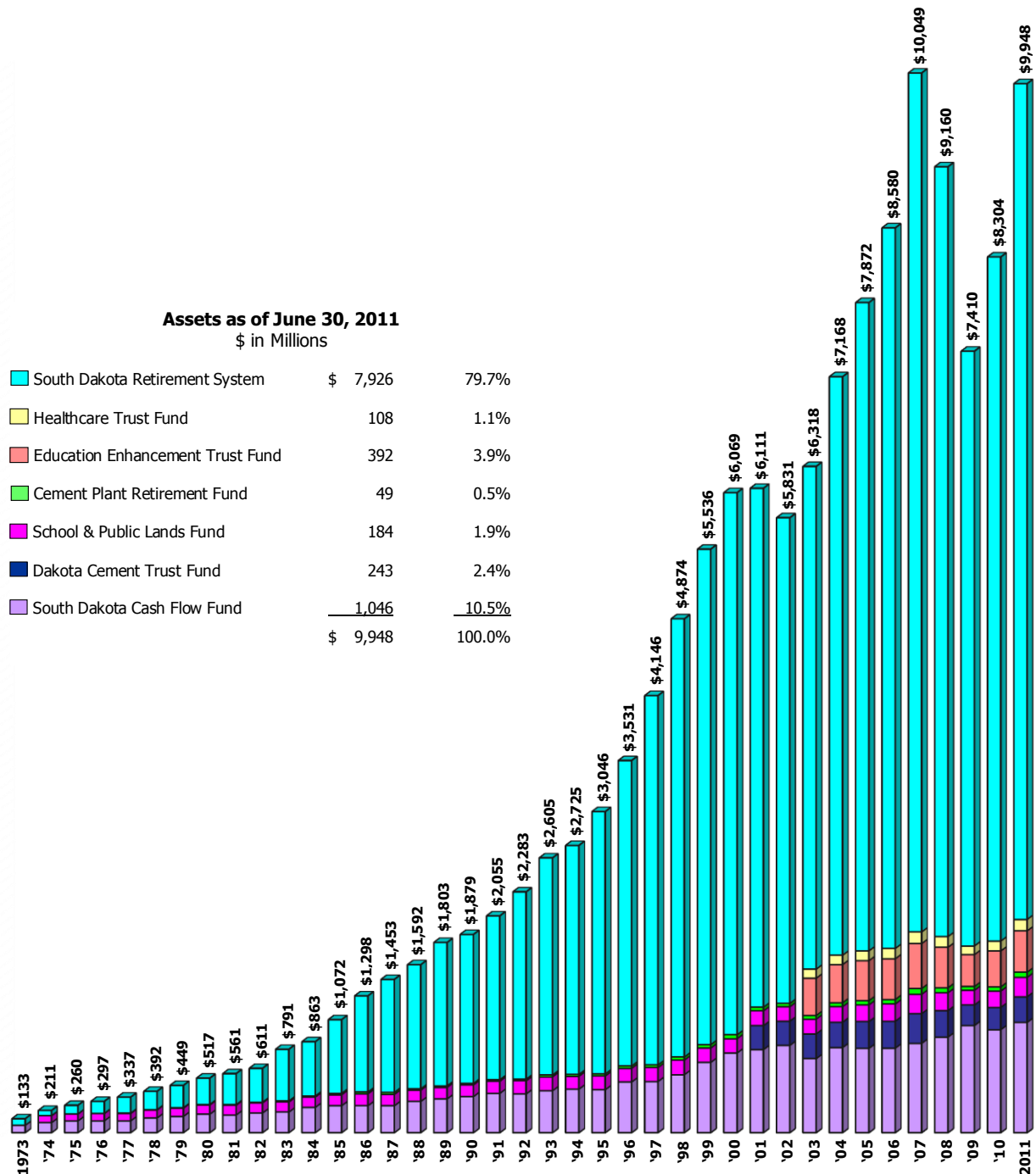


July 2011

# South Dakota Investment Council

## Assets Managed

### Fiscal Years 1973 to 2011



## INVESTMENT PERFORMANCE

### PERCENT RETURNS & DOLLARS

#### Returns

	<u>FY 2011</u>	<u>7 Years Annualized FY 05 – 11</u>	<u>10 Years Annualized FY 02 – 11</u>
SDRS Total Fund	25.84%	7.80%	7.01%
Mellon Analytics Billion \$ Corp Plan	19.68%	6.56%	5.93%
% Difference	<b>6.16%</b>	<b>1.24%</b>	<b>1.08%</b>
Capital Market Benchmark	22.06%	6.17%	5.72%
% Difference	<b>3.78%</b>	<b>1.63%</b>	<b>1.29%</b>
State Fund Universe*	21.50%	6.42%	5.63%
% Difference	<b>4.34%</b>	<b>1.38%</b>	<b>1.38%</b>
SDRS Beginning FY11 Assets		\$6.488 billion	
SDRS Ending 6/30/11 Assets		\$7.926 billion	

#### Dollars

- Total SDRS dollars earned Fiscal Year 2011: \$1.654 billion
- Total SDRS dollars earned last 7 years: \$3.505 billion
- Total SDRS dollars earned last 10 years: \$4.276 billion
- **Extra earnings** resulting from last 1, 7 and 10 years of performance:

	<u>1 year</u>	<u>7 years</u>	<u>10 years</u>
➤ vs. Mellon Analytics Corporate:	<b>\$400 million</b>	<b>\$713 million</b>	<b>\$840 million</b>
➤ vs. Capital Market Benchmark:	<b>\$245 million</b>	<b>\$751 million</b>	<b>\$828 million</b>
➤ vs. State Funds:	<b>\$282 million</b>	<b>\$652 million</b>	<b>\$771 million</b>

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\*Estimates

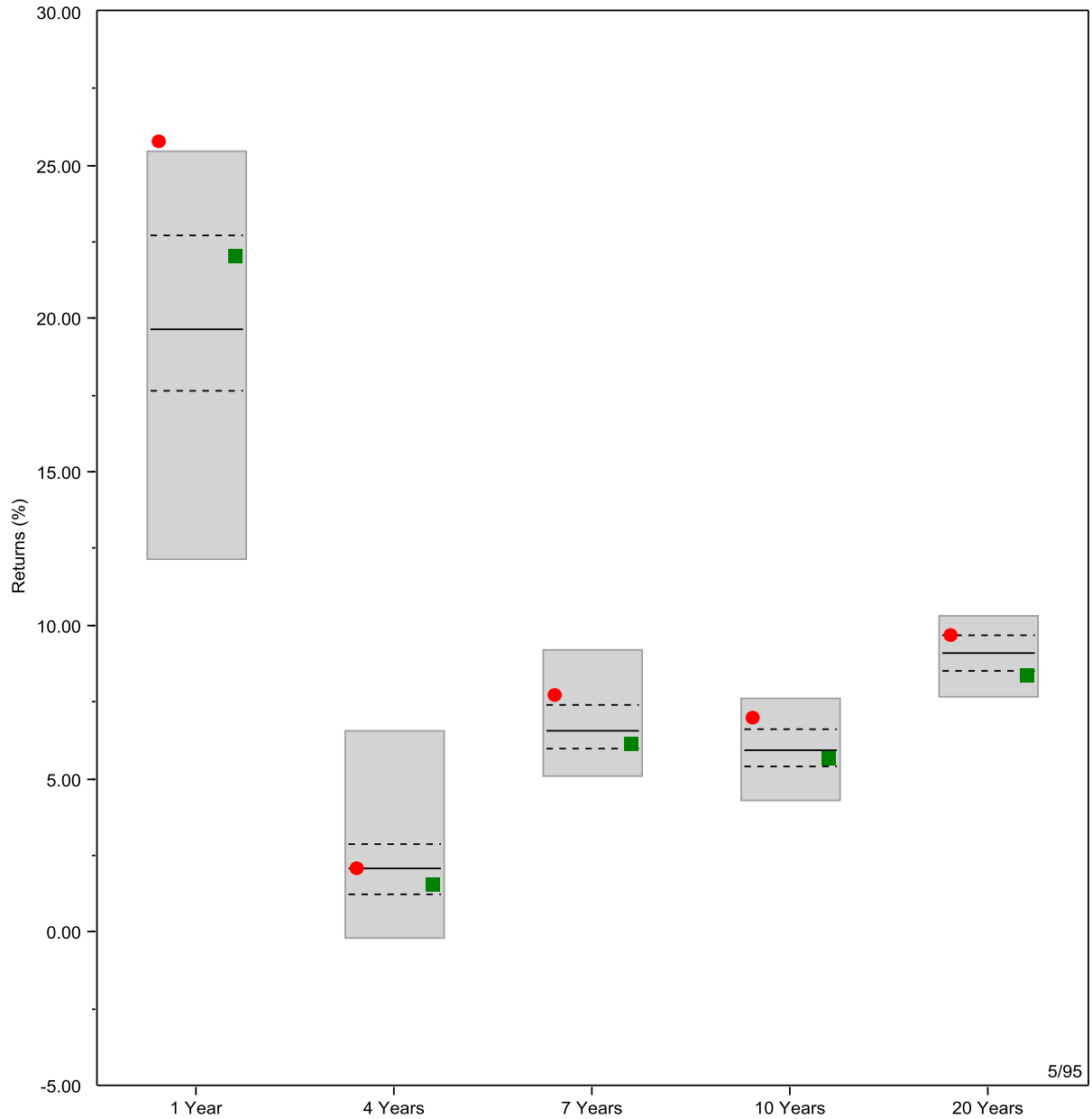
Note: All numbers unaudited

# Annualized Total Fund

## TOTAL BILLION DOLLAR FUNDS - CORPORATE

Ending June 30, 2011

### Quartile



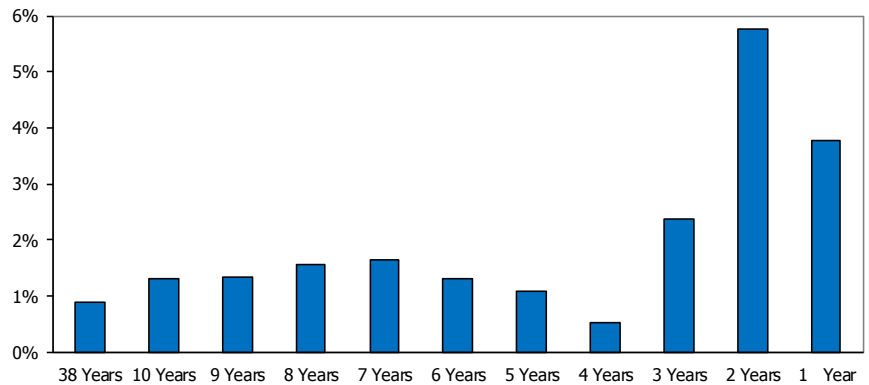
	Value	%Tile	Value	%Tile	Value	%Tile	Value	%Tile	Value	%Tile
5th Percentile	25.49		6.54		9.18		7.63		10.29	
25th Percentile	22.72		2.88		7.38		6.63		9.67	
Median Percentile	19.68		2.06		6.56		5.93		9.10	
75th Percentile	17.67		1.21		6.00		5.40		8.51	
95th Percentile	12.18		-0.21		5.11		4.29		7.68	
# of Portfolios	114		108		99		95		72	
● SDRS Total Fund	25.84	5	2.11	48	7.80	16	7.01	18	9.73	21
■ SDRS Benchmark	22.06	31	1.60	63	6.17	66	5.72	61	8.43	79

Universe Source: The Bank of New York Mellon Corporation; Universe Status: Final

## South Dakota Retirement System Total Fund Return Comparison

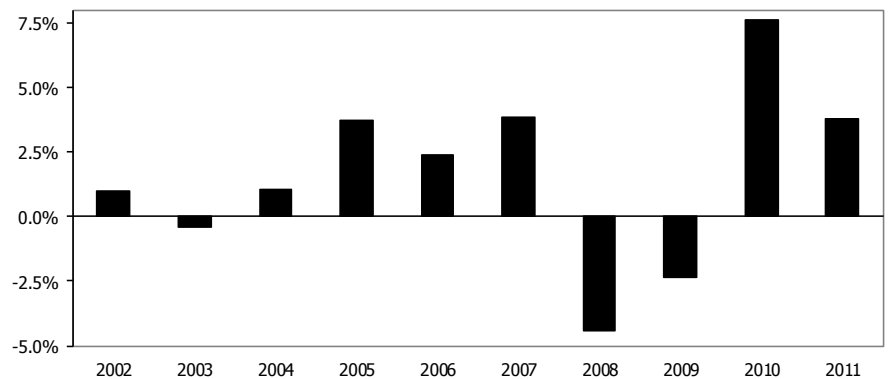
Annualized	SDRS <u>Total Fund</u>	SDRS Capital Markets <u>Benchmark</u>	Over/Under <u>Performance</u>
38 Years	10.57%	9.68%	0.88%
10 Years	7.01%	5.72%	1.29%
9 Years	8.42%	7.08%	1.34%
8 Years	8.86%	7.30%	1.56%
7 Years	7.80%	6.17%	1.63%
6 Years	6.90%	5.61%	1.29%
5 Years	5.70%	4.61%	1.09%
4 Years	2.11%	1.60%	0.51%
3 Years	5.97%	3.61%	2.36%
2 Years	22.23%	16.46%	5.77%
1 Year	25.84%	22.06%	3.78%

**SDRS Total Fund Over/Under Performance Chart**

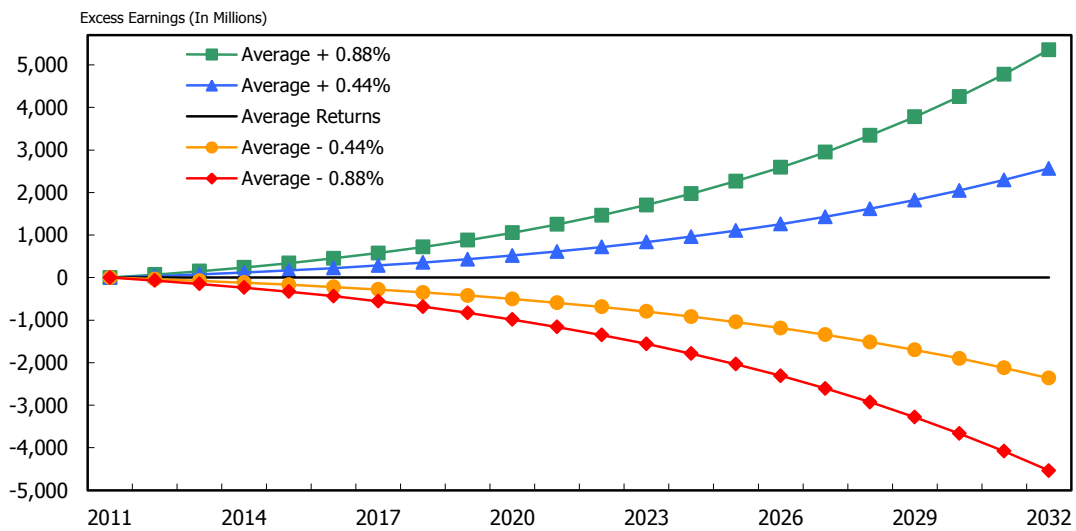


Annual Returns	SDRS <u>Total Fund</u>	SDRS Capital Markets <u>Benchmark</u>	Over/Under <u>Performance</u>
2002	-4.88%	-5.83%	0.96%
2003	4.95%	5.39%	-0.44%
2004	16.60%	15.54%	1.06%
2005	13.34%	9.60%	3.74%
2006	13.11%	10.74%	2.37%
2007	21.39%	17.57%	3.82%
2008	-8.65%	-4.20%	-4.45%
2009	-20.36%	-18.00%	-2.36%
2010	18.73%	11.12%	7.61%
2011	25.84%	22.06%	3.78%

**SDRS Total Fund Over/Under Performance Chart**

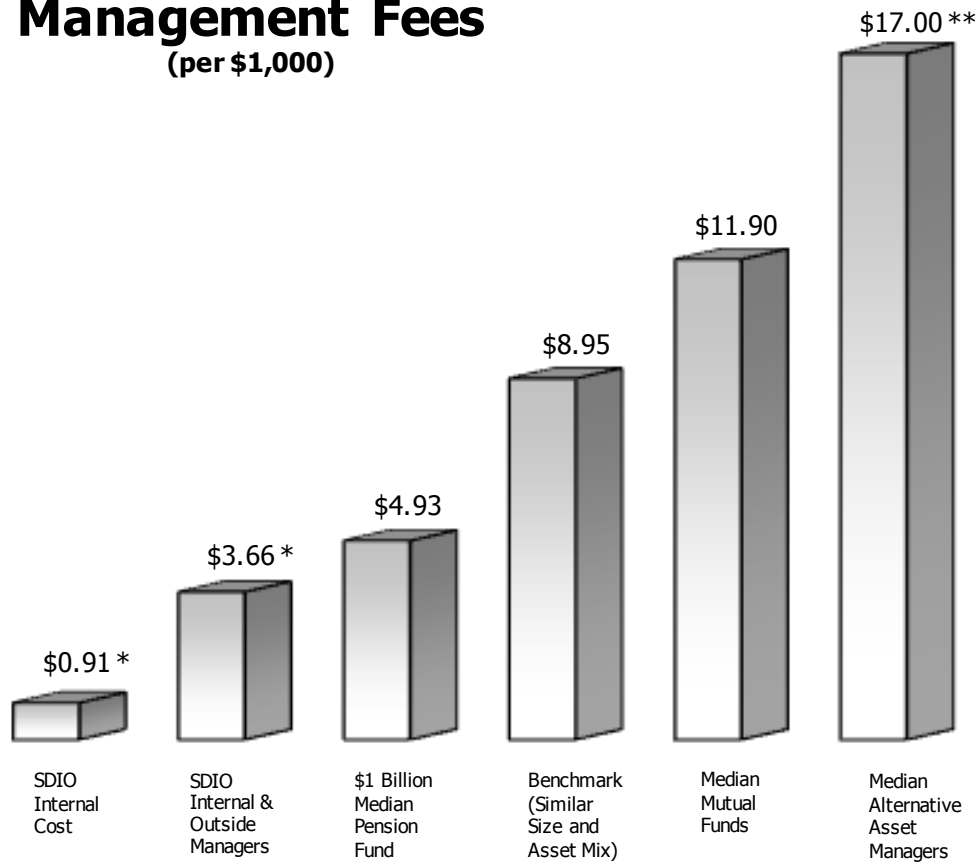


## Potential Excess Earnings



SDIC outperformance for the last 38 years has been .88% annualized versus benchmark. By the year 2032, a continued .88% outperformance would earn an extra \$5.4 billion. Outperformance of even half that amount would make a large difference by additional earnings of \$2.6 billion. In contrast, a .88% underperformance would cost the retirement systems \$4.5 billion relative to average returns.

## Management Fees (per \$1,000)



\* Using fully budgeted maximum investment performance incentives.

\*\* Plus 20% participation in all profits after a preferred returned to the investor.

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### *By Keeping Costs Low...*

*The cost difference between SDIO's \$3.66 and the Benchmark (similar size and asset mix) of \$8.95 is approximately \$52 million per year. Compounded over 30 years at projected asset growth, future wealth grows an EXTRA \$7 billion by keeping costs low!*



**SOUTH DAKOTA INVESTMENT COUNCIL  
FISCAL YEAR 2011  
Budget Summary**

	Received FY 2011	Actual Exp FY 2011	Unexpended
<b>PERSONAL SERVICES</b>			
Compensation with 0% Invest Performance Incentive	3,314,440	3,253,787.54	60,652.46 *
Total Maximum Potential Incentive	2,808,345	1,575,352.85	1,232,992.15
Compensation w/100% max potential Invest Perf Incent	6,122,785	4,829,140.39	1,293,644.61
Intern	19,884	0.00	19,884.00
Council Compensation	7,875	2,550.00	5,325.00
Longevity	6,335	6,335.00	0.00
Personal Benefits	1,016,685	839,125.76	177,559.24
<b>Total Personal Services</b>	<b>7,173,564</b>	<b>5,677,151.15</b>	<b>1,496,412.85</b>
<b>OPERATING EXPENSES</b>			
Contractual Services <i>(see next page for line item details)</i>	1,625,790	1,211,444.42 **	414,345.58
Travel	73,000	46,276.65	26,723.35
Office Supplies & Postage	14,148	10,925.63	3,222.37
Capital Assets	31,380	22,727.87	8,652.13
<b>Total Operating Expenses</b>	<b>1,744,318</b>	<b>1,291,374.57</b>	<b>452,943.43</b>
<b>TOTAL BUDGET</b>	<b>8,917,882</b>	<b>6,968,525.72</b>	<b>1,949,356.28</b>

\* \$47,689.17 Allianz reimbursement & delayed promotion increases for investment accountants

\*\* An additional \$6,692.13 in Bloomberg fees were incurred but waived due to securities transactions executed through their trading system.

**FISCAL YEAR 2012  
Budget Funding (SDCL 4-5-30)**

FY 2012 AUTHORIZED BUDGET	8,699,288.00
LESS FY 2011 CASH BALANCE	<u>(1,949,356.28)</u>
REMAINING FY 2012 BALANCE TO BE FUNDED	<u><u>6,749,931.72</u></u>

	Received FY 2011	Actual Exp FY 2011	Unexpended
<b>CONTRACTUAL SERVICES</b>			
<b>Investment Services</b>			
Consulting Services			
Consulting/Comp Analysis/Asset Alloc/etc.	80,000	0.00	80,000.00
Consultant-Steve Myers (March, 2010 - June, 2011)	50,000	55,530.95	(5,530.95)
Subtotal	130,000	55,530.95	74,469.05
Investment Accounting, Performance, Benchmarking			
BNY/Mellon Performance & Risk Analysis	20,000	20,000.00	0.00
S&P 1200	12,000	12,000.00	0.00
S&P 1000	0	0	0.00
S&P 1200 - Add'l - Iran free	0	8,000.00	(8,000.00)
Portia	50,000	38,559.33	11,440.67
Subtotal	82,000	78,559.33	3,440.67
Investment Databases, Newsfeeds & Quote Fees			
Bloomberg	146,475	115,201.21 **	31,273.79
Factset	160,315	164,669.04	(4,354.04)
Reuters Fundamental Index	24,000	25,188.00	(1,188.00)
Quote Fees (incl. Bloomberg/Factset)	54,086	44,323.07	9,762.93
Dow Jones News Service	34,804	35,946.00	(1,142.00)
Subtotal	419,680	385,327.32	34,352.68
Investment Research Services			
KDP High Yield	20,000	15,600.00	4,400.00
Stone McCarthy	4,305	4,140.00	165.00
Gimme Credit FI Research	25,000	23,153.00	1,847.00
Citigroup Yield Book / BB Index	10,000	0.00	10,000.00
PCS--Wall Street Access & European Research (cancelled)	28,350	12,000.00	16,350.00
PCS--American Mergers (cancelled)	12,600	0.00	12,600.00
PCS--Asia Pacific Mergers (cancelled)	0	5,000.00	(5,000.00)
Credit Sights	42,000	45,000.00	(3,000.00)
Indie Research-Insider Score	14,000	16,800.00	(2,800.00)
Gerson Lerhman (cancelled)	40,000	0.00	40,000.00
Morningstar Equity	30,000	46,375.00	(16,375.00)
The Markets.com	13,260	13,554.84	(294.84)
First Rain	14,000	0.00	14,000.00
Value Line	0	6,100.00	(6,100.00)
Management CV	0	15,000.00	(15,000.00)
Flexibility - From Brokerage to Independent Research	206,000	0.00	206,000.00
Subtotal	459,515	202,722.84	256,792.16
<b>Total Investment Services</b>	<b>1,091,195</b>	<b>722,140.44</b>	<b>369,054.56</b>
<b>Administrative Expenses</b>			
Office Rent	101,542	101,541.84	0.16
Bond/Liability Insurance	7,020	0.00	7,020.00
Telephone	10,000	4,441.08	5,558.92
Office Equip Rental/Maintenance	6,000	4,721.91	1,278.09
Bureau of Info & Telecommunications (BIT)	37,448	42,946.41	(5,498.41)
State Central Services	9,000	7,974.15	1,025.85
Legislative Audit	37,135	31,605.60	5,529.40
Custodial Fees - Global	288,750	275,499.92	13,250.08
Seminars/Educational Programs	33,500	16,919.00	16,581.00
Business Publications	4,200	3,654.07	545.93
<b>Total Administrative Expenses</b>	<b>534,595</b>	<b>489,303.98</b>	<b>45,291.02</b>
<b>TOTAL CONTRACTUAL SERVICES</b>	<b>1,625,790</b>	<b>1,211,444.42</b>	<b>414,345.58</b>

**SOUTH DAKOTA INVESTMENT COUNCIL**  
**Long-Term Plan**  
**Executive Summary**

	<u>FY 2013</u>	<u>FY 2018</u>	<u>FY 2023</u>
<b>INVESTMENT OFFICE BUDGET</b>			
<b>Personal Services</b>			
Number of Employees	[28]	[30]	[30]
Compensation w/0% Investment Performance Incentive	3,949,267	6,109,015	8,289,744
Total Maximum Potential Investment Perf Incentive	3,280,528	5,164,900	7,223,883
Compensation w/100% max potential Invest Perf Incentive	7,229,795	11,273,915	15,513,627
Intern	20,481	23,743	27,524
Council	7,875	7,875	7,875
Longevity	7,508	12,091	19,473
Benefits	1,187,208	1,849,300	2,543,893
Total Personal Services	8,452,866	13,166,923	18,112,391
<b>Operating Expenses</b>			
Contractual - Investment Services	956,400	1,253,019	1,568,182
Contractual - Administrative Services	514,897	623,795	757,534
Travel	73,000	97,457	123,202
Office Supplies & Postage	12,733	17,246	21,803
Capital Assets	28,242	41,240	50,018
Total Operating Expenses	1,585,272	2,032,757	2,520,738
<b>Total Investment Council Budget</b>	<b>10,038,138</b>	<b>15,199,681</b>	<b>20,633,129</b>
<b>ASSET SUMMARY *</b>			
Internal Assets	8,270,546,085	10,767,420,148	14,125,727,313
External Assets	2,756,848,695	3,589,140,049	4,708,575,771
Total Retirement System Assets	8,997,377,074	12,165,670,834	16,455,797,703
Total Assets	11,027,394,781	14,356,560,197	18,834,303,084
<b>EXPENSE SUMMARY</b>			
Internal Expenses	10,038,138	15,199,681	20,633,129
External Manager Fees	30,325,336	39,480,541	51,794,333
Total Expenses	40,363,474	54,680,221	72,427,463
<b>UNIT COST SUMMARY</b>			
Internal Expenses as % of Total Assets	0.091%	0.106%	0.110%
Internal Exp as % of Total Assets (1/2 assumed incentives)	0.076%	0.088%	0.090%
Total Expenses as % of Total Assets	0.366%	0.381%	0.385%

\* Projections based on long-term assumed returns applied to 6/30/11 assets. Updated each June 30.

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# SOUTH DAKOTA INVESTMENT COUNCIL FY 2013 Budget Request

	Received FY 2012	Version A Request FY 2013	% Change	Version B Request FY 2013	% Change	Version C Request FY 2013	% Change
<b>PERSONAL SERVICES</b>							
Compensation with zero Invest Performance Incentive	3,343,185	3,607,353	7.90%	3,657,616	9.41%	3,755,701	12.34%
Total Maximum Potential Incentive	2,553,557	2,568,306	0.58%	2,698,540	5.68%	2,998,378	17.42%
Compensation with total max potential Invest Perf Incent	5,896,743	6,175,659	4.73%	6,356,156	7.79%	6,754,079	14.54%
Total Intern, Council, Longevity	17,890	20,160	12.69%	20,160	12.69%	20,160	12.69%
Personal Benefits	975,770	1,022,496	4.79%	1,047,314	7.33%	1,102,028	12.94%
<b>TOTAL PERSONAL SERVICES</b>	<b>6,890,403</b>	<b>7,218,315</b>	<b>4.76%</b>	<b>7,423,630</b>	<b>7.74%</b>	<b>7,876,268</b>	<b>14.31%</b>
<b>OPERATING EXPENSES</b>							
Contractual Total (see attached for line item details)	1,702,210	1,471,297	-13.57%	1,471,297	-13.57%	1,471,297	-13.57%
Travel	65,700	73,000	11.11%	73,000	11.11%	73,000	11.11%
Office Supplies & Postage	12,733	12,733	0.00%	12,733	0.00%	12,733	0.00%
Capital Assets	28,242	28,242	0.00%	28,242	0.00%	28,242	0.00%
<b>TOTAL OPERATING EXPENSES</b>	<b>1,808,885</b>	<b>1,585,272</b>	<b>-12.36%</b>	<b>1,585,272</b>	<b>-12.36%</b>	<b>1,585,272</b>	<b>-12.36%</b>
<b>TOTAL BUDGET REQUEST</b>	<b>8,699,288</b>	<b>8,803,587</b>	<b>1.20%</b>	<b>9,008,902</b>	<b>3.56%</b>	<b>9,461,540</b>	<b>8.76%</b>

## UNIT COST SUMMARY

Internal Expenses as % of Total Assets	0.080%	0.082%	0.086%
Internal Expenses as % of Total Assets (with 50% avg Inv Perf Incent)	0.065%	0.067%	0.071%
Total Expenses as % of Total Assets	0.355%	0.357%	0.361%

Version A = Long-Term Plan (LTP) percentages applied to lowered FY 2012 base compensation, and maximum potential incentives funded at 85%--same as FY 2012 (previously always funded at 100%)

Version B = First year of three-year plan toward LTP levels, and maximum potential incentives funded at 90%

Version C = Full LTP levels and 100% funding of maximum potential incentives

	Received FY 2012	Version A B & C FY 2013	% Change
<b>OPERATING EXPENSES</b>			
<b>Contractual - Investment Services</b>			
Consulting Services			
Consulting/Comp Analysis/Asset Alloc/etc.	30,000	30,000	-62.50%
Consultant-Steve Myers (March, 2010 - June, 2011)	0	0	0.00%
Subtotal	30,000	30,000	0.00%
Investment Accounting, Performance, Benchmarking			
BNY/Mellon Performance & Risk Analysis	20,000	20,000	0.00%
S&P 1200	12,000	12,000	0.00%
S&P 1000	0	2,000	100.00%
S&P USA	0	10,000	100.00%
IDC - S&P 1200 - Add'l - Iran free	10,000	0	-100.00%
Portia	50,000	50,000	0.00%
Subtotal	92,000	94,000	2.17%
Investment Databases, Newsfeeds & Quote Fees			
Bloomberg	146,475	132,111	-9.81%
Factset	181,632	188,022	3.52%
Reuters Fundamental Index (eff 9/2009)	25,462	26,630	4.59%
Quote Fees (incl. Bloomberg/Factset)	54,086	45,125	-16.57%
Dow Jones News Service	34,804	42,984	23.50%
Subtotal	442,459	434,872	-1.71%
Investment Research Services			
KDP High Yield	20,000	20,000	0.00%
Stone McCarthy	4,305	4,305	0.00%
Gimme Credit FI Research	25,000	25,000	0.00%
Citigroup Yield Book / BB Index	10,000	10,000	0.00%
PCS--Wall Street Access & European Research	28,350	0	-100.00%
PCS--American Mergers	10,000	0	-100.00%
PCS--Asia Pacific Mergers	11,000	0	-100.00%
Credit Sights	39,900	47,250	18.42%
Indie Research-Insider Score	14,000	17,640	26.00%
Gerson Lerhman (replaces Vista)	30,000	30,000	0.00%
Morningstar Equity	44,000	75,000	70.45%
The Markets.com	13,260	14,233	7.34%
First Rain	16,000	0	-100.00%
Value Line	0	4,100	100.00%
Management CV	18,000	0	-100.00%
Flexibility - From Brokerage to Independent Research	66,789	150,000	124.59%
Subtotal	350,604	397,528	13.38%
<b>Total Contractual-Investment</b>	<b>915,063</b>	<b>956,400</b>	<b>4.52%</b>
<b>Contractual - Administrative</b>			
Office Rent	101,542	101,542	0.00%
Bond/Liability Insurance	7,020	7,020	0.00%
Telephone	10,000	10,000	0.00%
Office Equip Rental/Maintenance	6,000	6,000	0.00%
Bureau of Info & Telecommunications (BIT)	40,000	40,000	0.00%
State Central Services	9,000	9,000	0.00%
Legislative Audit	37,135	37,135	0.00%
Attorney General's Office	0	16,000	100.00%
Custodial Fees - Global	538,750	250,500	-53.50%
Seminars/Educational Programs	33,500	33,500	0.00%
Business Publications	4,200	4,200	0.00%
<b>Total Contractual-Administrative</b>	<b>787,147</b>	<b>514,897</b>	<b>-34.59%</b>

# SUMMARY OF TRUST FUND FAIR VALUE AND ASSET ALLOCATION

6/30/2011

(Unaudited)

## Health Care Trust (established April 2001)

Principal as of 6/30/11	\$ 85,631,024
Principal as of 6/30/11 adjusted for inflation	\$ 106,035,771
Fair Value (FV) as of 6/30/11	\$ 107,927,588
Difference - FV less principal after 7/1/12 distribution	\$ 18,420,266
Difference - FV less infl. adj. prin. after 7/1/12 distribution	\$ (1,984,481)
Fiscal year to date return	20.65%
Longterm expected mean return	6.39%
Payout of 4% plus expected inflation of 3%	7.00%
Expected return cushion/shortfall	-0.61%

Distribution for FY 12 (July 1, 2011)	<b>3,876,298</b>
Distribution for FY 11 (July 1, 2010)	3,886,427

Asset Allocation	FY 12	
	Current	Benchmark
Global Equity	50%	52%
Private Equity	3%	2%
Real Estate	10%	6%
Fixed Income-IG	26%	28%
Fixed Income-HY	2%	5%
Fixed Income-Tips	5%	5%
Money Market	5%	2%
Total	100%	100%

Law allows up to 4% of the 16 quarter average to be distributed as long as principal is not violated as of December 31 each year

## Education Enhancement Trust (established April 2001)

Principal as of 6/30/11	\$ 329,329,930
Principal as of 6/30/11 adjusted for inflation	\$ 408,409,819
Fair Value (FV) as of 6/30/11	\$ 391,603,272
Difference - FV less principal after 7/1/12 distribution	\$ 47,803,953
Difference - FV less infl. adj. prin. After 7/1/12 distribution	\$ (31,275,935)
Fiscal year to date return	20.44%
Longterm expected return (lower due to tax exempts)	5.98%
Payout of 4% plus expected inflation of 3%	7.00%
Expected return cushion/shortfall	-1.02%

Distribution for FY 12 (July 1, 2011)	<b>14,469,388</b>
Distribution for FY 11 (July 1, 2010)	14,802,790

Asset Allocation	FY 12	
	Current	Benchmark
Global Equity	48%	52%
Private Equity	3%	2%
Real Estate	11%	6%
Fixed Income-IG	0%	0%
Fixed Income-tax ex	30%	30%
Fixed Income-HY	2%	5%
Fixed Income-Tips	5%	3%
Money Market	5%	2%
Total	105%	100%

Law allows up to 4% of the 16 quarter average to be distributed as long as principal is not violated as of December 31 each year

## Dakota Cement Trust (established April 2001)

Principal as of 6/30/11	\$ 238,000,000
Principal as of 6/30/11 adjusted for inflation	\$ 301,947,692
Fair Value (FV) as of 6/30/11	\$ 242,694,682
Difference - FV less principal	\$ 4,694,682
Difference - FV less infl. adj. principal	\$ (59,253,010)
Fiscal year to date return	21.03%
Longterm expected mean return	6.39%
Payout of 5% plus expected inflation of 3%	8.00%
Expected return cushion/shortfall	-1.61%

Distribution for FY 11 (June 15, 2011 to Gen. Fund)	<b>12,000,000</b>
Distribution for FY 11 for education	0

Asset Allocation	FY 12	
	Current	Benchmark
Global Equity	50%	52%
Private Equity	4%	2%
Real Estate	12%	6%
Fixed Income-IG	26%	28%
Fixed Income-HY	2%	5%
Fixed Income-Tips	5%	5%
Money Market	1%	2%
Total	100%	100%

Pays out 5% of average balance with \$12 million always paid. Education money distributed as long as principal not violated as of June 30 each year

## School & Public Lands

Inflation protection mandated by Constitutional Amendment - (payout is reduced by inflation to extent inflation not offset by realized gains)

Fair Value as of 6/30/11	\$ 184,124,447
(after Bd of Regents distribution)	
Fiscal year to date return	20.42%
Longterm expected mean return	6.39%
Distribution for FY 11 (in Feb 2011 to K-12)	<b>8,273,935</b>
Distribution for FY 11 to Board of Regents (June)	<b>1,628,788</b>
TOTAL	<b>9,902,723</b>

Asset Allocation	FY 12	
	Current	Benchmark
Global Equity	52%	52%
Private Equity	3%	2%
Real Estate	10%	6%
Fixed Income-IG	26%	28%
Fixed Income-non-mk	1%	
Fixed Income-HY	2%	5%
Fixed Income-Tips	5%	5%
Money Market	1%	2%
Total	100%	100%

Pays out all land receipted income  
Pays out investment receipted income after CPI adjustment

## **FY 2011 Performance**

### **Compensation & Return-Linked Incentive Methodology Review**

- FY2011 SDRS investment return was 25.84%
  - Large pension fund peer universe median return was 19.68%
  - Investment Council's capital market index benchmark return was 22.06%
  - Added value of 3.78% versus capital market benchmark
  - Average added value over the Council's 38 year history is .9% per year
  - Council long term return continues to rank 1st for its full history
- In dollar terms the 25.84% return is \$1.65 billion for SDRS
- Outperformance of 3.78% vs. capital market benchmark is \$245 million of added value and outperformance of 6.16% versus peer universe is \$400 million of added value
- Added value (1&4 yr periods) results in a 67.77% payout for return-linked portion of compensation for the Investment Officer
  - The payout is roughly 1/10<sup>th</sup> of 1% of the added value to the capital market benchmark and roughly 1/15<sup>th</sup> of 1% of the added value to the peer universe
- Compensation based on private sector pay for comparable positions after adjusting for cost of living difference and a further 30% haircut to balance the desire to get a good deal for South Dakota (through quality results and low cost) with risk of losing the good deal if we cannot keep our people.
  - Retaining value added staff long term is helpful to the Council sticking with its long term investment strategies during difficult periods
  - Internal staff development model and the ten to twenty year timeframe for staff to become fully experienced increases need to retain staff long term
  - Discount has drifted from 30% target level to more than 40%
- Council believes portion of compensation should be linked to added value to motivate performance and to retain staff when performance is superior
  - Investment team more attractive to competitors when outperforming, thus pay higher when adding value and lower when not adding value
  - Incentives focused primarily on multi-year timeframes to encourage investing long term with some on the one year to always have something at stake
  - Important to encourage adding value in difficult markets, not just up markets
  - Total Compensation includes base salary portion for two-thirds and return-linked portion for the other third consisting of an assumed average payout of 50% of base
  - Payout can range in any year from 0% to 100% depending on size of outperformance versus benchmarks
  - To average a 50% payout requires added value consistent with the long term track record